

**REPORT OF THE AUDIT OF THE
FORMER GRAVES COUNTY
SHERIFF'S SETTLEMENT - 2010 TAXES**

**For The Period
April 16, 2010 Through December 31, 2010**



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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FORMER GRAVES COUNTY
SHERIFF'S SETTLEMENT - 2010 TAXES**

**For The Period
April 16, 2010 Through December 31, 2010**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2010 Taxes for the former Graves County Sheriff for the period April 16, 2010 through December 31, 2010. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$8,962,150 for the districts for 2010 taxes, retaining commissions of \$327,523 to operate the former Sheriff's office. The former Sheriff distributed taxes of \$8,555,980 to the districts for 2010 taxes. Refunds of \$8,066 are due to the former Sheriff from the taxing districts and \$118 is due to the taxing districts by the former Sheriff.

Report Comments:

- 2010-01 The Former Graves County Sheriff Should Have Prepared An Annual Franchise Tax Settlement As Required By KRS 134.192
- 2010-02 The Former Graves County Sheriff's Office Lacked An Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits as of November 30, 2010 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$1,033,878

The former Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the former Sheriff's deposits in accordance with the security agreement.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable Dewayne Redmon, Graves County Sheriff
Honorable John Davis, Former Graves County Sheriff
Members of the Graves County Fiscal Court

Independent Auditor's Report

We have audited the former Graves County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through December 31, 2010. This tax settlement is the responsibility of the former Graves County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Graves County Sheriff's taxes charged, credited, and paid for the period April 16, 2010 through December 31, 2010, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable Dewayne Redmon, Graves County Sheriff
Honorable John Davis, Former Graves County Sheriff
Members of the Graves County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated January 6, 2012 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2010-01 The Former Graves County Sheriff Should Have Prepared An Annual Franchise Tax Settlement As Required By KRS 134.192
- 2010-02 The Former Graves County Sheriff's Office Lacked An Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in dark ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen
Auditor of Public Accounts

January 6, 2012

GRAVES COUNTY
JOHN DAVIS, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2010 TAXES

For The Period April 16, 2010 Through December 31, 2010

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,155,503	\$ 2,004,967	\$ 4,046,266	\$ 1,549,136
Tangible Personal Property	120,120	181,209	341,604	326,092
Fire Protection	1,102			
Omitted Taxes	1,029	2,937	3,420	1,656
Franchise Taxes	70,678	105,014	202,020	
Additional Billings	699	1,169	2,393	2,508
Limestone, Sand and Mineral Reserves	535	653	2,077	718
Bank Franchises	100,158			
Penalties	2	6	7	29
Adjusted to Sheriff's Receipt	(3,294)	(4,102)	652	(4,058)
Gross Chargeable to Sheriff	1,446,532	2,291,853	4,598,439	1,876,081
<u>Credits</u>				
Exonerations	7,704	12,890	28,069	10,410
Discounts	22,377	34,932	73,415	30,129
Delinquents:				
Property Taxes	132,578	254,056	409,835	188,468
Prior Year Omitted Taxes	169	518	656	230
Limestone, Sand and Gravel	193	236	750	259
Bank Franchises	22,389			
Franchise Taxes	4,103	6,184	10,205	
Total Credits	189,513	308,816	522,930	229,496
Taxes Collected	1,257,019	1,983,037	4,075,509	1,646,585
Less: Commissions *	53,423	81,855	122,265	69,980
Taxes Due	1,203,596	1,901,182	3,953,244	1,576,605
Taxes Paid	1,203,427	1,899,533	3,876,478	1,576,542
Prior Year Settlement		1,396	868	256
Refunds (Current and Prior Year)	1,158	1,683	79,560	1,674
Due Districts or		**		
(Refunds Due Sheriff)				
as of Completion of Audit	\$ (989)	\$ (1,430)	\$ (3,662)	\$ (1,867)

* and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

GRAVES COUNTY
 JOHN DAVIS, FORMER SHERIFF
 SHERIFF'S SETTLEMENT - 2010 TAXES
 For The Period April 16, 2010 Through December 31, 2010
 (Continued)

* Commissions:

4.25% on	\$ 4,489,212
4% on	\$ 349,745
3% on	\$ 4,075,509
1% on	\$ 47,684

** Special Taxing Districts:

Library District	\$ (990)
Health District	(169)
J. U. Kevil District	(204)
Symonia Fire District	(70)
Watershed District #3	(115)
Volunteer Fire Departments	<u>118</u>

Due District or	
(Refunds Due Sheriff)	<u>\$ (1,430)</u>

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Graves County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

GRAVES COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2010
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Graves County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, on November 30, 2010, the former Sheriff's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the former Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$1,033,878

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2010. Property taxes were billed to finance governmental services for the year ended June 30, 2011. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 26, 2010 through December 31, 2010.

Note 4. Interest Income

The former Graves County Sheriff earned \$1,611 as interest income on 2010 taxes. The former Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the former Sheriff's office. As of January 6, 2012, the former Sheriff owed \$82 in interest to the school district and \$25 in interest to his fee account.

Note 5. Unrefundable Duplicate Payments And Unexplained Receipts

The former Sheriff deposited unrefundable duplicate payments and unexplained receipts in a separate account. The former Sheriff's escrowed amounts were as follows:

2008	\$157
2009	\$12,503
2010	\$1,001

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110. The former Sheriff did not send a written report to the Treasury Department and did not submit \$626 to the Kentucky State Treasurer as required by KRS 393.110.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tony Smith, Graves County Judge/Executive
Honorable Dewayne Redmon, Graves County Sheriff
Honorable John Davis, Former Graves County Sheriff
Members of the Graves County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the former Graves County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through December 31, 2010, and have issued our report thereon dated January 6, 2012. The former Sheriff prepared his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the former Graves County Sheriff's office was responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the former Graves County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2010-02 to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the former Graves County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through December 31, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2010-01.

This report is intended solely for the information and use of management, the Graves County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen
Auditor of Public Accounts

January 6, 2012

COMMENTS AND RECOMMENDATIONS

GRAVES COUNTY
JOHN DAVIS, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 16, 2010 Through December 31, 2010

STATE LAWS AND REGULATIONS:

2010-01 The Former Graves County Sheriff Should Have Prepared An Annual Franchise Tax Settlement As Required By KRS 134.192

The former Graves County Sheriff did not prepare an annual franchise tax settlement as required by KRS 134.192. KRS 134.192 states 'the sheriff shall file an annual settlement of all monies collected by his office'; this would include any franchise taxes collected. The settlement should include total amount to be collected, discounts given, penalties paid, commissions earned and taxes paid for each taxing district. The former Sheriff should have prepared an annual franchise tax settlement by September 1 and had it approved by the Fiscal Court as required by KRS 134.192.

Former Sheriff John Davis's Response: "No response."

INTERNAL CONTROL - MATERIAL WEAKNESS:

2010-02 The Former Graves County Sheriff's Office Lacked An Adequate Segregation Of Duties

During the review of the internal control structure, the following deficiencies were noted in the control environment over tax receipts and disbursements:

- The former Sheriff's bookkeeper collected money, prepared deposits, and reconciled to daily collection reports.
- The former Sheriff's bookkeeper prepared and signed all checks with no second signature required.
- The former Sheriff's bookkeeper prepared monthly bank reconciliations.

No compensating controls were noted to offset any of these control deficiencies. Therefore, the control deficiencies as described above are considered a material weakness. The former Sheriff should have segregated duties over tax receipts and disbursements or should have implemented the following compensating controls to limit the severity of these internal control weaknesses:

- The former Sheriff or his designee should have periodically prepared the daily bank deposit and compared it to the daily collection report prepared by the bookkeeper for the tax collections. Any differences should have been reconciled. This review could have been documented by signing the bank deposit and daily collection reports.
- The former Sheriff or his designee should have reviewed the monthly tax reports and compared monthly reports to checks written. The former Sheriff or his designee should also have reviewed supporting documentation for any other checks written from the tax account such as overpayments and refunds. A second signature should be required on all checks.
- The former Sheriff or his designee should have prepared the monthly bank reconciliations. Any differences should have been reconciled. This could have been documented by signing the bank reconciliation and checkbook.

Former Sheriff John Davis's Response: "No response."

